

TEACHERS' RETIREMENT BOARD

REGULAR MEETING

SUBJECT: Approval of June 8, 2000

ITEM NUMBER: 2

ATTACHMENT(S): 1

ACTION: X

DATE OF MEETING: July 13, 2000

INFORMATION: _____

PRESENTER(S): Chairperson

Please see the attached minutes of the June 8, 2000, meetings of the Teachers' Retirement Board.

PROPOSED
MINUTES OF THE
TEACHERS' RETIREMENT BOARD
OPEN SESSION
THURSDAY, JUNE 8, 2000
CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
ROBYN D. MILLER BOARD ROOM
7667 FOLSOM BOULEVARD
SACRAMENTO, CALIFORNIA 95826

BOARD MEMBERS PRESENT

Emma Zink, Chairperson
Yvonne Bodle
Gary Lynes
Marty Mathiesen
Lillian Raffel
Walter Barnes, representing the State Controller, Kathleen Connell
Curt Robinson, representing the Superintendent of Public Instruction, Delaine Eastin
Jennifer DuCray-Morrill, representing the State Treasurer, Philip Angelides
Annette Porini, representing the Director of Finance, B. Timothy Gage

STAFF PRESENT

James D. Mosman, Chief Executive Officer
Christopher Waddell, Chief Counsel
Elleen Okada, Director, Investment Administration and External Relations
Peggy Plett, DCEO, Administration
Michael Carter, DCEO, Client Benefits and Services
Laurence Martin, DCEO, Information and Financial Systems
Ken Costa, START Project Director
Ed Derman, DCEO, External Affairs and Program Development
Ted Hynson, Manager, Administrative Services
Mary Miles, Administrative Assistant

OTHERS PRESENT

Yaron Benvenisti, General Manager, WorldGroup Consulting
Maureen Rice, SPL WorldGroup, Inc.
Mark Johnson, Milliman and Robertson
Anne Stupey, CFT
Pat Geger, CRTA
Norman Gould, CRTA
Donald Douglas, CTA-R
Dorothy Moser, UTLA-R
Ellen Logue, CTA-R
Michael Green, CTA
Harold Taylor, CRTA
Elizabeth Mackenzie, CRTA
Bev Carlson, CTA
Loretta Toggenburger, UTLA

Carolyn Widener, CFT
George Martin, ART

A quorum being present, Chairperson Zink called the meeting to order at 11:23 a.m.

II. **APPROVAL OF MINUTES OF MAY 3 AND 4, 2000 MEETING**

MOTION duly made by Ms. Porini, seconded by Mr. Mathiesen, and carried to approve the Board Meeting Minutes of May 3 and 4, 2000.

III. **ANNOUNCEMENTS**

There were no announcements.

IV. **COMMITTEE REPORTS**

INVESTMENT COMMITTEE: Mr. Lynes, Chairperson of the Investment Committee, reported that, in open session, the Committee changed the benchmark for all equity managers to eliminate tobacco stocks as identified by the IRRC; heard a semi-annual performance report from Real Estate; adopted a "no position" on the Knox tobacco related bill and directed staff to have a discussion with the author; received information about our Real Estate Consultant Contract amendment; and received two educational reports, one on an expanded Enhanced Index strategy and one on Public Real Estate Securities (REITS). The Committee also received reports on Cash Equitization, received Activity Status Reports for Credit Enhancement, Real Estate, Alternative Investments, and a report from the Chief Investment Officer.

Under closed session, the Committee authorized an investment of up to 300 million Euros in a European buy out fund. The Committee selected a new Director of Real Estate and directed staff to implement its benchmark decision change.

BY CONSENSUS, the report of the Investment Committee was accepted.

EXECUTIVE COMPENSATION COMMITTEE: Ms. Raffel, Acting Chairperson of the Executive Compensation Committee, reported the Committee approved an increase to the base pay range by ten percent for the Investment Directors. The Committee directed staff to report back to the Committee on the four percent COLA authorized for all exempt employees in September 2000, and postponed discussion on incentives to enable to the new Chief Investment Officer to participate in the discussions.

BY CONSENSUS, the report of the Executive Compensation Committee was accepted.

BENEFITS AND SERVICES COMMITTEE: Dr. Bodle reported that the Committee adopted the 2000-01 Production Objectives, heard an Overpayment Report, and reviewed the Warrant Stub Message and the Level of Service Standards.

BY CONSENSUS, the report of the Benefits and Services Committee was accepted.

HEALTH BENEFITS COMMITTEE: Mr. Barnes, representing Dr. Connell, Chairperson of the Health Benefits Committee, stated that the Committee took a number of actions related to funding for Medicare Part A and B including Penalties and approving a Request for Proposal for Medicare Supplement Benefits. These recommendations will be brought to the Board for consideration under agenda items 8 and 9.

BY CONSENSUS, the report of the Health Benefits Committee was accepted.

V. **CHIEF EXECUTIVE OFFICER REPORT**

Mr. Mosman stated the next Board meeting will be held in the new Board Room located on the first floor. Mr. Mosman also stated that there may be a meeting in August to conduct finalist interviews for the Chief Investment Officer position. Mr. Mosman also reported that Ms. Hollins, Manager of the Health Benefits Unit, has accepted a position with the Department of Personnel Administration.

VI. **START PROJECT STATUS**

Mr. Costa introduced Mr. Benvenisti, General Manager for Worldgroup Consulting, who provided information on the organizational changes at SPL WorldGroup, Inc. Mr. Benvenisti stated that the reorganization would not affect the project or the teams working on the project.

Mr. Costa, and Ms. Rice, SPL Worldgroup, Inc., provided an update to the START Project. Mr. Costa stated testing to date indicates that the system is conforming to the specifications and he does not, at this point, anticipate a problem with the remaining testing processes. Mr. Costa will be inviting project team leaders to future meetings to discuss the different projects within START.

VII. **UPDATE ON LEGISLATION**

STATE: Mr. Derman provided a status of the Conference Committee Proposal. Action on AB 1933, AB 2118, AB 2201, AB 2839, and SB 1693 was deferred. Mr. Derman presented the following legislative proposals for the Board's consideration.

AB 2456 (Wright): Establishes the Deferred Retirement Option Program (DROP) as a supplemental benefits program in the Defined Benefit Program.

MOTION duly made by Mr. Lynes, seconded by Ms. DuCray-Morrill, and carried to adopt a support, if amended position on AB 2456, as recommended by staff. Ms. Porini abstained.

SB 1692 (Ortiz): Enhances benefits to members who retired for service before January 1, 1999.

MOTION duly made by Ms. DuCray-Morrill, seconded by Ms. Raffel, and carried to adopt a support, if amended position of SB 1692, as recommended by staff. Ms. Porini abstained.

SB 2105 (Lewis): Requires a school district or county office of education that is the chartering authority of a charter school to create reports required by CalSTRS or CalPERS.

MOTION duly made by Ms. Raffel, seconded by Dr. Bodle, and carried to adopt a support, if amended position of SB 2105, as recommended by staff. Ms. Porini and Mr. Barnes abstained.

FEDERAL: Mr. Derman reported that the second installment from Elk Hills should be received by October 2000.

VIII. **HEALTH BENEFIT PROPOSALS / HEALTH BENEFIT FUNDING MECHANISM** (Items 8 and 9)

Mr. Barnes reported on the recommendations of the Health Benefits Committee Meeting and brought to the Board for approval.

MOTION duly made by Ms. Raffel, seconded by Dr. Bodle, and carried to approve funding for Medicare Part A premium for those members who are ineligible for premium free coverage; funding for penalties for both Part A and Part B; approve the release of a Request for Proposal for a Medicare Supplemental Program; adopt, in concept, the method of financing health benefits by use of the bypass mechanism - so that future contributions would be diverted to a special fund to finance health benefits, and to require all existing school districts conduct the Medicare Part A election. Ms. Porini abstained.

Ms. Carlson, CTA, wanted to make sure the Board approved the by-pass funding mechanism exactly as discussed in the Health Benefits Committee.

IX. **CASH BALANCE BENEFIT PROGRAM ADDITIONAL EARNINGS CREDIT, AND GAIN AND LOSS RESERVE**

Mr. Derman presented this item. Mr. Johnson from Milliman and Robertson provided additional information on the proposal.

MOTION duly made by Mr. Lynes, seconded by Ms. DuCray-Morrill, and carried to adopt an additional earnings credit which would result in an average effective interest rate of 8.5 percent to participant accounts for balances as of June 30, 1999 and posted as of July 1, 1999.

X. **APPROVAL OF CONTRACTS IN EXCESS OF \$500,000**

Mr. Hynson requested approval of four contracts with a cumulative value exceeding \$500,000.

MOTION duly made by Mr. Mathiesen, seconded by Ms. Raffel, and carried to approve a contract amendment for the San Bernardino area.

MOTION duly made by Mr. Mathiesen, seconded by Ms. Raffel, and carried to approve a contract amendment for San Diego County Office of Education.

MOTION duly made by Mr. Mathiesen, seconded by Ms. Raffel, and carried to approve the Teale Data Center contract. Ms. DuCray-Morrill voted no.

MOTION duly made by Mr. Mathiesen, seconded by Ms. Raffel, and carried to approve the contract for Benefits, RPPPA and Warrant Processing with the State Controller's Office. Mr. Barnes abstained.

XI. **TRAVEL**

Mr. Mosman requested the following additions: Ms. Drevalas to attend the IFE Market Makers Seminar in June; Ms. Raffel to attend the Breast Cancer Study on June 23; add Ms. Raffel and Mr. Carter to attend the NCTR Annual Conference in October; and for any Board Member who wishes to attend the CalPERS Direct Contracting Workshop in Sacramento on June 20.

MOTION duly made by Ms. Porini, seconded by Mr. Mathiesen, and carried to approve the travel as amended. Mr. Barnes voted no.

MOTION duly made by Dr. Bodle, seconded by Ms. Porini, and carried to approve the travel summaries.

XII. **CASH BALANCE BENEFIT PROGRAM UPDATE**

Mr. Lujano presented an update to the Cash Balance Benefit Program.

XIII. **EXECUTIVE SEARCH FIRM SINGLE SOURCE CONTRACT APPROVAL**

Mr. Mosman requested approval to award a single source contract not to exceed \$175,000 to Pendleton James Associates.

MOTION duly made by Mr. Mathiesen, seconded by Ms. Raffel, and carried to approve a single source contract with Pendleton James Associates not to exceed \$175,000 to assist the Board in the Chief Investment Officer selection process.

Mr. Mosman reported that he would only be advertising for this position in the trade publications.

XIV. **DRAFT AGENDA FOR THE JULY REGULAR MEETING**

Staff was directed to add a closed session item on Personnel Issues.

XV. **OPPORTUNITY FOR STATEMENTS FROM THE PUBLIC**

There were no statements.

XVI. **MOVED TO CLOSED SESSION**

Chairperson Zink moved into closed session at 12:50 p.m.

XVII. **ADJOURNMENT**

At 1:05 p.m., Chairperson Zink returned to open session.

There being no further business to conduct, the meeting was adjourned at 1:06 p.m.

James D. Mosman, Chief Executive Officer
and Secretary to the Teachers' Retirement Board

Emma Zink, Chairperson